



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FULTON COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FULTON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Fulton County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$353,324 from the beginning of the year, resulting in a cash surplus of \$2,331,510 as of June 30, 2001.

Debt Obligations:

Total bonded debt principal for the Capital Projects Corporation as of June 30, 2001, was \$2,092,292. Future collections of \$2,656,057 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements for the Fulton County Fiscal Court totaled \$1,032,440 as of June 30, 2001. Future principal and interest payments of \$1,567,907 are needed to meet these obligations.

Report Comment:

- The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$87,940 To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Harold Garrison, Fulton County Judge/Executive

Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Fulton County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Fulton County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Fulton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Fulton County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2001 on our consideration of Fulton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Harold Garrison, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$87,940 To Protect Deposits

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Fulton County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 23, 2001

FULTON COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Harold M. Garrison	County Judge/Executive
Billy Nelms, Jr.	Magistrate
Louis Roscoe Hutchins	Magistrate
James D. Black	Magistrate
Dennis Hulin	Magistrate

Other Elected Officials:

Richard L. Major, Jr.	County Attorney
Ricky Parnell	Jailer
Lesia LaRue	County Clerk
Sarah Johnson	Circuit Court Clerk
Robert Hopper	Sheriff
Mike Alexander	Property Valuation Administrator
Henry Callison	Coroner

Appointed Personnel:

Karen Argo	County Treasurer
Fonda Swain	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

FULTON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$	511,117	
Road and Bridge Fund:			
Cash		814,722	
Jail Fund:			
Cash		724,856	
Disaster and Emergency Services Fund:			
Cash		<u>7,209</u>	\$ 2,057,904

Debt Service Fund Type

Capital Projects Corporation - Debt Service Fund:

1996 Refunding Bonds - Cash	273,606
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Other Resources

General Fund Type

Jail Fund:

Amounts to be Provided in Future Years for Leasing Trust Principal			
Payments - Jail Annex #1	\$	322,000	
Amounts to be Provided in Future Years for Leasing Trust Principal			
Payments - Jail Annex #2		710,440	
Amounts to be Provided in Future Years for Jail Capital			
Lease Obligations - Bond Principal Payments		<u>252,292</u>	1,284,732

Debt Service Fund Type

Capital Projects Corporation - Debt Service Fund:

1996 Refunding Revenue Bonds - Amounts to be Provided in Future			
Years - Bond Principal Payments		<u>1,566,394</u>	

Total Assets and Other Resources	<u><u>\$ 5,182,636</u></u>
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The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

Jail Fund:

Leasing Trust Obligation Jail Annex #1 - Principal Payments (Note 4)	\$	322,000	
Leasing Trust Obligation Jail Annex #2 - Principal Payments (Note 4)		710,440	
Capital Lease Obligation - Bond Principal Payments (Note 5)		<u>252,292</u>	\$ 1,284,732

Debt Service Fund Type

Capital Projects Corporation - Debt Service Fund:

1996 Refunding Revenue Bonds - Bond Principal Not Matured (Note 6)			1,840,000
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Fund Balances

Reserved:

General Fund Type

Disaster and Emergency Services Fund			7,209
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Unreserved:

General Fund Type

General Fund	\$	511,117	
Road and Bridge Fund		814,722	
Jail Fund		<u>724,856</u>	<u>2,050,695</u>
Total Liabilities and Fund Balances			<u>\$ 5,182,636</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

FULTON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,632,247	\$ 727,769	\$ 666,879	\$ 1,548,793
Transfers In	316,354	56,119		
Total Cash Receipts	<u>\$ 3,948,601</u>	<u>\$ 783,888</u>	<u>\$ 666,879</u>	<u>\$ 1,548,793</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,484,935	\$ 774,027	\$ 603,755	\$ 1,601,559
Transfers Out	316,354	6,662	56,119	
Fees	600			
Bonds:				
Principal Paid	335,000			
Interest Paid	108,419			
Call Premium	4,800			
Kentucky Association of Counties Leasing Trust Obligation Jail Annex Principal Paid	41,050			41,050
Kentucky Local Facility Construction Authority Revenue Bonds Principal Paid	10,767			10,767
Total Cash Disbursements	<u>\$ 4,301,925</u>	<u>\$ 780,689</u>	<u>\$ 659,874</u>	<u>\$ 1,653,376</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (353,324)	\$ 3,199	\$ 7,005	\$ (104,583)
Cash Balance - July 1, 2000	<u>2,684,834</u>	<u>507,918</u>	<u>807,717</u>	<u>829,439</u>
Cash Balance - June 30, 2001	<u>\$ 2,331,510</u>	<u>\$ 511,117</u>	<u>\$ 814,722</u>	<u>\$ 724,856</u>

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

General Fund Type	Capital Projects Fund Type		Debt Service Fund Type
Disaster and Emergency Services Fund	Riverport Fund	Community Development Block Grant Fund	Capital Projects Corporation - Debt Service Fund
\$ 16,808	\$ 450,000	\$ 29,970	\$ 192,028
			260,235
<u>\$ 16,808</u>	<u>\$ 450,000</u>	<u>\$ 29,970</u>	<u>\$ 452,263</u>
\$ 15,984	\$ 459,640	\$ 29,970	\$
			253,573
			600
			335,000
			108,419
			4,800
<u>\$ 15,984</u>	<u>\$ 459,640</u>	<u>\$ 29,970</u>	<u>\$ 702,392</u>
\$ 824	\$ (9,640)	\$	\$ (250,129)
6,385	9,640		523,735
<u>\$ 7,209</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 273,606</u>

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Fulton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Capital Projects Corporation as part of the reporting entity.

The Capital Projects Corporation is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management has included the Capital Projects Corporation as a component unit, and the entity's financial activity was blended with that of the Fiscal Court.

Additional - Fulton County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Fulton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fulton County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Fulton County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Disaster and Emergency Services Fund.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Capital Projects Fund Type

Capital Project Funds Type accounts for financial resources to be used for acquisition of major capital facilities. The Riverport Fund and the Community Development Block Grant Fund of the Fiscal Court are reported as Capital Projects Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Capital Projects Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Fulton County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Capital Projects Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Fulton County Fiscal Court:

Fulton County Extension District
Fulton County Transit Authority
Fulton County Conservation District
Fulton County Library District

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. The following are joint ventures in which Fulton County is a participant:

Fulton County Economic Development Partnership
Senior Citizens Incorporated
Hickman-Fulton County Riverport Authority

FULTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$87,940 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 1,880,706
Insured by FDIC insurance	501,174
Uncollateralized and uninsured	<u>87,940</u>
Total	<u><u>\$ 2,469,820</u></u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Debt

Jail Annex #1 and Jail Annex #2

The Fulton County Fiscal Court has entered into two leasing trust agreements with the Kentucky Association of Counties Leasing Trust. The first was entered into on July 17, 1992 and the second on January 30, 1998. The purposes of the leasing trusts were for the construction and use of the Fulton County Detention Facility Annex #1 and Annex #2. The interest rate for the leasing trust agreement for Annex #1 is a fixed rate of 5.25% and for Annex #2 is a variable rate, which is 4.5% for the current fiscal year. Total lease trusts principal amounts were \$415,000 and \$775,000, respectively. Lease principal and interest requirements due in the next five years and thereafter are:

Annex #1

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2002	\$ 19,639	\$ 13,000
2003	18,807	14,000
2004	17,913	15,000
2005	16,982	15,000
2006	16,026	16,000
Thereafter	94,556	249,000
Totals	<u>\$ 183,923</u>	<u>\$ 322,000</u>

Annex #2

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2002	\$ 36,717	\$ 29,339
2003	37,644	28,182
2004	33,489	32,096
2005	31,763	33,571
2006	35,113	29,958
Thereafter	176,818	557,294
Totals	<u>\$ 351,544</u>	<u>\$ 710,440</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$943,147 of revenue bonds at various interest rates (6.25% through 10.375%), of which the county has agreed to pay \$355,082 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2001, totaled \$252,292. Bond principal and interest requirements due in the next five years and thereafter are:

<u>Fiscal Year</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2002	\$ 16,386	\$ 11,480
2003	15,601	12,240
2004	14,762	13,051
2005	13,868	13,916
2006	12,915	14,839
Thereafter	<u>61,239</u>	<u>186,766</u>
Total	<u>\$ 134,771</u>	<u>\$ 252,292</u>

Note 6. Advanced Refunding of Courthouse Facilities Bond Issues

Capital Projects Corporation Fund 1996 Refunding Revenue Bonds

The Fulton County Capital Projects Corporation, an independent corporate agency and instrumentality of Fulton County, issued first mortgage refunding revenue bonds, series 1996, dated December 1, 1996, for the purpose of discharging the outstanding bonds of series 1990A, 1990B, and 1991 (collectively referred to herein as the "Prior Bonds"). The net proceeds thereof were used to complete, equip, and furnish the Court Facilities Project and annex which houses county government offices.

The corporation issued \$2,215,000 of refunding revenue bonds, the proceeds of which were used for deposit to the Escrow Fund. This amount when added with interest earnings thereon and any cash or investments held by the trustee for the prior bonds, was adequate to discharge all outstanding prior bonds, and as of June 30, 2001, all outstanding prior bonds had been discharged.

The Kentucky Administrative Office of the Courts has agreed to pay lease payments directly to the paying agent on behalf of the county as is required by the Use and Sublease Agreement between the county and the Administrative Office of the Courts dated December 1, 1996. If the payment from the Sublease Agreement is not sufficient to meet the principal and interest requirements of the bond, the county is contingently liable for the Administrative Office of the Courts' payments.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Advanced Refunding of Courthouse Facilities Bond Issues (Continued)

Bond principal and interest requirements due in the next five years and thereafter are:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2002	\$ 94,575	\$ 100,000
2003	89,245	105,000
2004	83,655	110,000
2005	77,675	120,000
2006	71,305	125,000
Thereafter	<u>286,145</u>	<u>1,280,000</u>
Total	<u>\$ 702,600</u>	<u>\$ 1,840,000</u>

Note 7. Other Obligation

On April 26, 1998, Fulton County entered into a lease with the City of Fulton for the use of Fulton City Jail. This jail is used as a county twelve-hour holdover facility. The county is to pay the city yearly rent of \$5,000 in four equal quarterly payments. The lease remains in effect from year to year until such time as either party terminates the lease with a 60-day notice to the other party.

Note 8. Related Party Transaction

During fiscal year ending June 30, 2001, Fulton County purchased the majority of its petroleum products from Fields Petroleum, Incorporated. The magistrate from District 4 was employed by Fields Petroleum, Incorporated during this same time period. While this particular magistrate abstained from voting on the oil and gas bids, the fiscal court awarded this bid to Fields Petroleum for fiscal year ending June 30, 2001. Total purchases made for this fiscal year from Fields Petroleum, Incorporated amounted to \$31,685. The county's ethics code allows this transaction since the magistrate did not participate in the bid process.

Note 9. Insurance

For the fiscal year ended June 30, 2001, Fulton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 10. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Fulton County Jail Canteen Fund had income of \$36,879, less cost of goods sold of \$13,673, less other expenses of \$23,146, leaving net income of \$60 as of June 30, 2001. All expenditures were for the benefit and/or recreation of the inmates.

Note 11. Grants

A. Fulton County Scattered Site Phase II Project

In May 2001, Fulton County Fiscal Court was awarded a Community Development Block Grant for \$1,000,000 from the United States Department of Housing and Urban Development for the rehabilitation and restructuring of existing housing structures noted in the grant agreement. The Department for Local Government, Commonwealth of Kentucky, oversees these block grant funds. During fiscal year 2001, the Fulton County Fiscal Court received grant funds totaling \$29,970 and disbursed grant funds totaling \$29,970. The unexpended grant fund balance as of June 30, 2001 is \$970,030.

B. Hickman-Fulton County Riverport Project

Fulton County Fiscal Court was awarded a grant sum of \$700,000 from the Department for Local Government for the construction of a new general cargo dock at the riverport. These funds were allocated by the General Assembly in 1998 when House Bill 321 was enacted. During fiscal year 1999, the Fulton County Fiscal Court received grant funds totaling \$55,250 and disbursed grant funds totaling \$55,250. During fiscal year 2000, the Fulton County Fiscal Court received grant funds totaling \$644,750 and disbursed funds totaling \$635,110. During fiscal year 2001, the Fulton County Fiscal Court expended the remaining grant balance of \$9,640.

During fiscal year 2001, a second grant for \$450,000 was awarded from the Department for Local Government for the continuing construction of a new general cargo dock at the riverport. These funds were allocated by the General Assembly in 2000 when House Bill 502 was enacted. During fiscal year 2001, the Fulton County Fiscal Court received and expended grant funds totaling \$450,000. All transactions are complete as of June 30, 2001. Fulton County is currently awaiting the approval of the Certificate of Completion and Closeout Agreement from the Department of Local Government for the Hickman-Fulton County Riverport Project.

C. Fulton County Volunteer Fire Department Project

Fulton County Fiscal Court was awarded a grant sum of \$50,000 from the Department for Local Government for the purchase of fire equipment, payment assistance on a water truck, and payment toward the improvement of the communications system. Fulton County Fiscal Court received and expended these grant funds during the current fiscal year for the previously noted purposes.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

FULTON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 676,634	\$ 727,769	\$ 51,135
Road and Bridge Fund	556,831	666,879	110,048
Jail Fund	1,463,220	1,548,793	85,573
Disaster and Emergency Services Fund	18,250	16,808	(1,442)
<u>Capital Projects Fund Type</u>			
Riverport Fund	666,468	450,000	(216,468)
Community Development Block Grant Fund	<u>1,000,000</u>	<u>29,970</u>	<u>(970,030)</u>
Totals	<u>\$ 4,381,403</u>	<u>\$ 3,440,219</u>	<u>\$ (941,184)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 4,381,403
Add: Budgeted Prior Year Surplus	1,676,410
Less: Other Financing Uses	<u>(91,100)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 5,966,713</u>

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SCHEDULE OF OPERATING REVENUE

FULTON COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 488,165	\$ 488,165	\$	\$
In Lieu Tax Payments	30,165	30,165		
Excess Fees	5,984	5,984		
Licenses and Permits	435	435		
Intergovernmental Revenues	2,745,055	2,087,485	479,970	177,600
Charges for Services	82,307	82,307		
Miscellaneous Revenues	146,951	146,951		
Interest Earned	133,185	118,757		14,428
Total Operating Revenue	<u>\$ 3,632,247</u>	<u>\$ 2,960,249</u>	<u>\$ 479,970</u>	<u>\$ 192,028</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

FULTON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 604,136	\$ 527,661	\$ 76,475
Protection to Persons and Property	1,449,445	1,392,659	56,786
General Health and Sanitation	2,000	712	1,288
Social Services	4,800	2,364	2,436
Recreation and Culture	17,800	3,750	14,050
Transportation Facilities and Services	25,000	9,093	15,907
Roads	696,525	512,474	184,051
Other Transportation Facilities and Services	22,511	17,489	5,022
Debt Service	67,200	67,054	146
Capital Projects	65,500	8,129	57,371
Administration	1,345,328	453,940	891,388
Total Operating Budget - All General Fund Types	\$ 4,300,245	\$ 2,995,325	\$ 1,304,920
Other Financing Uses:			
Kentucky Association of Counties			
Leasing Trust Obligation Jail Annex			
Principal	41,500	41,050	450
Kentucky Local Facility Construction			
Authority Revenue Bonds			
Principal	10,800	10,767	33
Transfers to Capital Projects			
Corporation Fund	38,800	6,662	32,138
TOTAL BUDGET - ALL GENERAL FUND TYPES	\$ 4,391,345	\$ 3,053,804	\$ 1,337,541

FULTON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES
Fiscal Year Ended June 30, 2001
(Continued)

<u>Expenditure Categories</u>	<u>CAPITAL PROJECTS FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Capital Projects	<u>\$ 1,666,468</u>	<u>\$ 489,610</u>	<u>\$ 1,176,858</u>
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u>\$ 1,666,468</u>	<u>\$ 489,610</u>	<u>\$ 1,176,858</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Harold Garrison, Fulton County Judge/Executive

Members of the Fulton County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Fulton County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 23, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fulton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$87,940 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Harold Garrison, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 23, 2001

COMMENT AND RECOMMENDATION

FULTON COUNTY
COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2001

NONCOMPLIANCES

The County Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$87,940 To Protect Deposits

On June 30, 2001, \$87,940 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Harold Garrison's Response:

The Fulton County Fiscal Court has a signed Pledge of Securities Agreement with all the banks where county money is deposited. The county is constantly contacting the banks requesting more pledges to cover deposited funds. At the present time all County funds are covered and the County will continue to monitor pledges closely.

PRIOR YEAR FINDINGS

- Internal Controls Over Federal Expenditures Should Be Improved
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The first comment has been partially been corrected as of the date of the report. The second comment has not been corrected and is repeated above.

